Hollinger

Canadian Newspapers, Limited Partnership

2002 Annual Report

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Management's Discussion and Analysis

Overview

Hollinger Canadian Newspapers, Limited Partnership ("the Partnership") is a limited partnership established under the laws of the Province of Ontario on April 14, 1999, by Hollinger Canadian Publishing Holdings Co. (formerly Hollinger Canadian Publishing Holdings Inc. and successor to the operations of XSTM Holdings (2000) Inc. (formerly Southam Inc.))("HCPH"). HCPH has an 87% ownership interest in the Partnership. Hollinger Inc. ("Inc.") and Hollinger International Inc. ("International") directly own a combined 100% interest in HCPH. Lord Black of Crossharbour, PC (C), OC, KCSG indirectly controls Inc. and International through The Ravelston Corporation Limited ("Ravelston").

International indirectly owns an 87% interest in the Partnership. Under the Canadian Income Tax Act, there are limits on non-Canadian ownership of Canadian newspapers. At present, International does not meet those limits and, if this continues beyond a specified cure period, there could be adverse effects on advertising revenue. International will take the necessary steps to ensure that they are in compliance before the cure period expires.

Hollinger Canadian Newspapers G.P. Inc. ("HCNGP"), a wholly owned subsidiary of HCPH, is the general partner. The Partnership has entered into a management agreement with HCNGP to provide the Partnership with certain management, administrative, operational and other services in exchange for a management fee of 3% of gross revenue including interest and other income of the Partnership and reimbursement of certain expenses.

Significant Transactions

On April 29, 1999, the Partnership acquired 48 daily newspapers, 188 non-daily newspapers and shopping guides and 108 magazines and specialty publications on a tax-deferred basis from various subsidiaries of HCPH for a total purchase price of $1,812.0 million. With the acquisition of these properties, the Partnership became a leading publisher of daily and weekly newspapers, magazines and specialty publications in Canada.

Early in 2000, Inc. announced that some of its community newspapers were available for sale and that consideration would be given to forming strategic alliances. As a result of this review, an offer was received for a significant portion of the Partnership's assets. This transaction was completed on November 16, 2000, and the Partnership disposed of some of its principal properties including the *Windsor Star*, the *Regina Leader Post*, the *Saskatoon Star Phoenix* and the *Victoria Times-Colonist*. On October 5, 2000, the Partnership sold the Novalis division in Quebec. As consideration for these transactions, the Partnership received $1,051.9 million (subject to certain adjustments). Of this amount, $604.8 million was received in cash, $207.2 million was received in the form of voting and non-voting shares of CanWest Global Communications Corp. ("CanWest") and $239.9 million was received in the form of subordinated non-convertible debentures of a holding company in the CanWest group. For purposes of recording the transaction, the CanWest voting and non-voting shares were recorded at their fair value of $128.5 million and the non-convertible debentures at their fair value of $223.2 million on November 16, 2000. All of the shares and a majority of the debentures were disposed of during 2001. See discussion under "Investments".

In January 2001, the Partnership completed the sale of UniMédia Company ("UniMédia") to Gesca Limited, a subsidiary of Power Corporation of Canada for proceeds of approximately $135.0 million. The publications sold represented the French language newspapers of the Partnership including three paid circulation dailies and 15 weeklies published in Quebec and Ontario. A gain of approximately $75.1 million was recognized on this sale which was included in special items in 2001.

In two separate transactions in July and November 2001, the Partnership completed the sale of most of its remaining Canadian newspapers to Osprey Media Group Inc. ("Osprey") for total cash proceeds of approximately $255.0 million plus closing adjustments primarily for working capital. Included in these sales were community newspapers in Ontario such as *The Kingston Whig-Standard, The Sault Star,* the *Peterborough Examiner,* the *Chatham Daily News* and *The Observer* (Sarnia).

After disposing of the properties referred to above, the remaining assets of the Partnership consist principally of two separate groups of properties and the investment in CanWest debentures. The first group consists of the magazine and directories division together with additional properties, including the *Nickle's Energy Group* and the *Northern Miner Newspaper*. The second group consists of paid and non-paid newspapers in British Columbia with the two principal properties being *The Prince George Citizen* and *The Kamloops Daily News*.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to bad debts, investments, intangible assets, income taxes, restructuring, pensions and other post-retirement benefits, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances could be required.

We have goodwill recorded in our accounts. Certain of our properties operate in competitive markets. We are required to determine annually whether or not there has been any impairment in the value of these assets. Changes in long-term readership patterns and advertising expenditures may affect the value and necessitate an impairment charge. Certain indicators of potential impairment that could impact the Partnership's operating units include, but are not limited to, the following: (a) a significant long-term adverse change in the business climate that is expected to cause a substantial decline in advertising spending, (b) a permanent significant decline in an operating units' readership, (c) a significant adverse

long-term negative change in the demographics of an operating units' readership and (d) a significant technological change that results in a substantially more cost-effective method of advertising than offered by other operating units.

The Partnership sponsors three defined benefit pension plan and two post-retirement benefit plans for its employees. These defined benefit plans include pension and post-retirement benefit obligations, which are calculated based on actuarial valuations. In determining these obligations and related expenses, key assumptions are made concerning expected rates of return on plan assets and discount rates. In making these assumptions, the Partnership evaluated, among other things, input from actuaries, expected long-term market returns and current high-quality bond rates. The Partnership will continue to evaluate the expected long-term rates of return on plan assets and discount rates at least annually and make adjustments as necessary, which could change the pension and post-retirement obligations and expenses in the future.

Unrecognized actuarial gains and losses in respect of pension and post-retirement benefit plans are recognized by the Partnership over a period of approximately 13 years, which represents the weighted average remaining service life of the employee group. Unrecognized actuarial gains and losses arise from several factors, including experience, assumption changes in the obligations and from the difference between expected returns and actual returns on assets. At the end of 2002, the Partnership had unrecognized net actuarial losses of $6.5 million. These unrecognized amounts could result in an increase to pension expenses in future years depending on several factors, including whether such losses exceed the corridor in accordance with the Canadian Institute of Chartered Accountants ("CICA") Section 3461, "Employee Future Benefits".

The estimated accumulated benefit obligations for the defined benefit plan exceeded the fair value of the plan assets at December 31, 2002, as a result of the negative impact that declines in global capital markets and interest rates had on the assets and obligations of the Partnership's pension plan. During 2002, the Partnership made contributions of $26,000 to the defined benefit plan. Global capital market and interest rate fluctuations could impact funding requirements for such plan. If the actual operations of the plan differ from the assumptions, and the deficiency between the plan's assets and obligations continues, additional Partnership contributions may be required. If the Partnership is required to make significant contributions to fund the defined benefit plan, reported results could be adversely affected, and the Partnership's cash flow available for other uses may be reduced.

The Partnership recognizes a pension valuation allowance for any excess of the prepaid benefit cost over the expected future benefit. Increases or decreases in global capital markets and interest rate fluctuations could increase or decrease any excess of the prepaid benefit cost over the expected future benefit resulting in an increase or decrease to the pension valuation allowance. Changes in the pension valuation allowance are recognized in earnings immediately.

Changes in Accounting Policies

Business Combinations and Goodwill and Other Intangibles

In August 2001, the CICA issued Handbook Section 1581, "Business Combinations" ("Section 1581") and Handbook Section 3062, "Goodwill and Other Intangible Assets" ("Section 3062"). Section 1581 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. Section 3062 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually by comparing carrying value to the respective fair value in accordance with the provisions of Section 3062. Section 3062 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment by assessing the recoverability of the carrying value.

The Partnership adopted the provisions of Section 1581 as of July 1, 2001, and Section 3062 as of January 1, 2002. Upon adoption of Section 3062, the Partnership was required to evaluate its existing intangible assets and goodwill that were acquired in purchase business combinations, and effective January 1, 2002, has reclassified certain amounts previously ascribed to circulation to goodwill.

In connection with Section 3062's transitional goodwill impairment evaluation, Section 3062 requires the Partnership to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. The fair value of the Partnership's operating units were determined primarily using a multiple of maintainable normalized cash earnings. As a result of this transitional impairment test, and based on the methodology adopted, the Partnership has determined that no impairment existed on the date of adoption.

At January 1, 2002, the Partnership had unamortized goodwill in the amount of $27.0 million, which is no longer being amortized. This change in accounting policy cannot be applied retroactively and the amounts presented for prior periods have not been restated for this change.

Stock-based Compensation and Other Stock-based Payments

Effective January 1, 2002, the Partnership adopted CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments" ("Section 3870"). Under Section 3870, the Partnership is required to account for, on a prospective basis, all stock-based payments made by the Partnership to non-employees, and employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2002, using the fair value-based method. Non-employees in this instance would constitute any employees of HCPH, Inc., International, Ravelston or their related subsidiaries with exception of the Partnership. For all other stock-based payments the Partnership has elected to use the settlement method of accounting, whereby cash received on the exercise of stock options is recorded as capital stock.

Under the fair value-based method, stock options granted to non-employees by the Partnership are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. Such fair value determined is recorded as a dividend-in-kind with no resulting impact on the Partnership's net income. Section 3870 has been applied prospectively to all stock-based payments to non-employees granted on or after January 1, 2002. The Partnership has not granted any stock options since the adoption of Section 3870.

Recent Accounting Pronouncements

Impairment of Long-Lived Assets

In December 2002, CICA issued Handbook Section 3063, "Impairment of Long-Lived Assets" ("Section 3063") and revised Section 3475, "Disposal of Long-Lived Assets and Discontinued Operations" ("Revised Section 3475"). These sections supersede the write-down and disposal provisions of Section 3061, "Property, Plant and Equipment" and Section 3475, "Discontinued Operations." The new standards are consistent with U.S. generally accepted accounting principles. Section 3063 establishes standards for recognizing, measuring and disclosing impairment of long-lived assets held for use. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the projected future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value. Revised Section 3475 provides specific criteria for and requires separate classification for assets held for sale and for these assets to be measured at the lower of their carrying amounts and fair value, less costs to sell. Revised Section 3475 also broadens the definition of discontinued operations to include all distinguishable components of an entity that will be eliminated from operations. Section 3063 is effective for the Partnership's 2004 fiscal year; however, early application is permitted. Revised Section 3475 is applicable to disposal activities committed to by the Partnership after May 1, 2003; however, early application is permitted. The Partnership expects that the adoption of these standards will have no material impact on its financial position, results of operations or cash flow at this time.

Disclosure of Guarantees

In February 2003, the CICA issued Accounting Guideline 14, "Disclosure of Guarantees" ("AcG 14"). AcG 14 requires certain disclosures to be made by a guarantor in its interim and annual financial statements for periods beginning after January 1, 2003. The Partnership is currently determining the impact these new disclosures will have on its consolidated financial statements.

Results of Operations

The following table sets forth, for the period indicated, certain items and related percentage relationships included in the Partnership's Consolidated Statement of Income.

Years ended December 31 (thousands of dollars)	2002		2001	
Revenue from operations				
Advertising	$ 62,059	69.4%	$ 125,349	67.0%
Circulation	16,264	18.2%	41,041	21.9%
Job printing and other	11,118	12.4%	20,642	11.1%
	89,441	100.0%	187,032	100.0%
Cost of operations				
Labour	37,984	42.5%	73,558	39.3%
Newsprint	6,730	7.5%	19,032	10.2%
Other operating costs	35,686	39.9%	65,979	35.3%
	80,400	89.9 %	158,569	84.8 %
Operating profit	9,041	10.1 %	28,463	15.2%
Depreciation and amortization	1,009	1.1%	7,775	4.2%
Interest expense	-	0.0%	494	0.2%
Net foreign currency (gain) loss	(1,140)	(1.3)%	4,674	2.5%
Investment and other income	(9,944)	(11.1)%	(32,074)	(17.2)%
	(10,075)	(11.3)%	(19,131)	(10.3)%
Income before special items and income taxes	19,116	21.4%	47,594	25.5%
Special items	2,229	2.5%	47,553	25.4%
Income before income taxes	21,345	23.9%	95,147	50.9%
Income taxes	745	0.8%	2,567	1.4%
Net income	$ 20,600	23.1%	$ 92,580	49.5%

Revenue from operations for the year ended December 31, 2002 amounted to $89.4 million, a decrease of 52.2% from the $187.0 million earned in 2001. Advertising revenue which had been 67.0% of total revenue in 2001 increased to 69.4% in 2002. Circulation revenue which had been 21.9% of the revenue in 2001 decreased to 18.2% in 2002.

Operating costs in 2002 totalled $80.4 million compared with the $158.6 million in 2001. Labour costs were 42.5% of total revenue in 2002 and 39.3% in 2001 while newsprint costs were 7.5% of total revenue in 2002 and 10.2% in 2001.

The operating profit in 2002 amounted to $9.0 million compared with $28.5 million in 2001. Operating profit which had been 15.2% of total revenue in 2001 decreased to 10.1% of total revenue in 2002.

The significant decrease in revenue from operations and operating profits in 2002 compared with 2001 results primarily from the sale of UniMédia in January 2001 and, the sales to Osprey in July and November of 2001.

Same Store

On a same store basis, which, included only those businesses owned throughout 2001 and 2002, total revenue was $89.1 million in 2002 compared to $91.7 million in 2001, a decrease of $2.6 million or 2.8%. Operating profit on a same store basis for the year ended December 31, 2002, was $8.3 million compared to $8.1 million in 2001. The increase in same store operating profit is primarily due to a decrease in newsprint prices.

Depreciation and Amortization

Depreciation and amortization in 2002 was $1.0 million compared with $7.8 million in 2001, a decrease of $6.8 million. The decreases result from the disposal of properties in 2001, and from the adoption, effective January 1, 2002, of CICA Handbook Section 3062 "Goodwill and Other Intangible Assets", ("Section 3062"). The new section requires that goodwill and intangible assets with indefinite useful lives no longer be amortized but instead be tested for impairment, at least annually. This change in accounting policy cannot be applied retroactively and the amounts presented for 2001 have not been restated for the change. The adoption on January 1, 2002, of Section 3062 has resulted in goodwill not being amortized subsequent to January 1, 2002. In 2002, amortization of goodwill and intangibles was nil compared with $3.7 million in 2001.

Investment and Other Income

The total investment and other income for the year ended December 31, 2002, was $9.9 million compared with $32.1 million in 2001, a decrease of $22.2 million. In 2001, investment and other income included interest on debentures issued by a subsidiary of CanWest and a dividend on the CanWest shares. In the latter part of 2001, all of the CanWest shares were sold and Participation interests were sold in nearly all of the CanWest debentures resulting in significantly lower interest and other income in 2002.

Special Items

In 2002, special items totalled a gain of $2.2 million. Special items in 2001 consist primarily of the gain on sale of UniMédia of $75.1 million, gains on the sales to Osprey of $57.2 million, a loss on the sale of the CanWest shares and debentures of $76.9 million and a loss on other items totalling $14.0 million.

Income taxes

The Partnership itself is not subject to income tax. Income taxes reflects current and future taxes on income earned in the Partnership's two wholly owned subsidiaries.

Taxable Income to Unitholders

The Partnership is required to calculate its income or loss for income tax purposes for each fiscal year as if it were a separate person resident in Canada. In computing its income or loss for tax purposes, the Partnership is entitled to deduct its expenses in the year in which they were incurred provided such expenses are reasonable and their deduction is permitted under the Income Tax Act. The Unitholders are required to include in calculating their taxable income for a taxation year, their share of monthly Partnership income or loss for the year, regardless of whether any such income is distributed to the Unitholder for those months that the Unitholder was a Unitholder of record at each month's end. In the event that the distributable cash exceeds the income or loss allocated to each Unitholder, the excess amount reduces each Unitholder's adjusted cost base.

The taxable income allocated to Unitholders during 2002 was $0.06 per unit ($0.73 per Unit in 2001). This amount is made up of business income $0.02 per Unit ($0.30 per Unit in 2001), taxable capital gains (at 50% of gross) of nil per Unit ($0.28 per Unit in 2001) and investment income of $0.04 per Unit ($0.15 per Unit in 2001). This compares with cash distributed from operations amounting to $0.06 per Unit in 2002 ($0.20 per Unit in 2001) and special distributions amounting to nil per Unit in 2002 ($3.33 per Unit in 2001). The total distributions in 2002 amounted to $0.06 per Unit ($3.53 per Unit in 2001).

Distributable Cash

In the year ended December 31; 2002, the distributable cash was $9.1 million (2001 - $23.2 million) and actual cash distributions from operations were $11.0 million (2001 - $36.6 million). For January to June 2002, the monthly distribution was $0.01 per unit. There was no monthly distribution for the remainder of the year. In addition, the Partnership announced there will be no further monthly cash distributions to unitholders until it has been determined by the board of directors of the general partner, in accordance with the Partnership Agreement, that there is sufficient distributable cash to make such distributions.

The amount of cash available for distribution is dependent upon the amount by which income before special items, non-cash interest income, depreciation and amortization, interest expense and income taxes, and cash-on-hand exceeds the aggregate of reserves and interest, principal and other cash borrowing costs paid. Reserves include 1.5% of gross revenue and any amount determined by the general partner to finance current and anticipated liabilities, to finance additional capital expenditures and to stabilize distributions throughout the year.

Investments

At December 31, 2000, the Partnership owned 8,164,800 CanWest non-voting shares, 816,480 CanWest multiple-voting preference shares and subordinated debentures issued by a subsidiary of CanWest, with a principal amount of $239.9 million. The stated interest rate on the subordinated debentures is 12.125% per annum. Until November 15, 2005, at the option of the issuer of the debentures, interest may be paid in cash, by the issue of additional debentures, or by the issue of CanWest shares with the total principal amount being due on November 15, 2010.

On November 28, 2001, the Partnership sold all of its multiple voting preferred shares and non-voting shares in CanWest for total cash proceeds of approximately $81.2 million. The sale resulted in a loss of $47.3 million, which was included in special items.

As part of its agreement with CanWest, the Partnership was prohibited from selling the CanWest debentures prior to May 15, 2003. In order to monetize this investment, during December 2001, the Partnership sold participations in $183.6 million principal amounts of CanWest debentures to a special purpose trust ("Hollinger Participation Trust"). Units of the Hollinger Participation Trust were sold by the Hollinger Participation Trust to arms' length third parties. These transactions resulted in net proceeds to the Partnership of $149.8 million. The net loss on the transaction amounted to $29.6 million and was included in special items.

The Partnership has not retained an interest in the Hollinger Participation Trust nor does it have any ongoing involvement in the Hollinger Participation Trust. The Hollinger Participation Trust and its investors have no recourse to the Partnership's other assets in the event that CanWest defaults on its debentures. Under the terms of the Hollinger Participation Trust, the interest payments received by the Partnership in respect of the underlying CanWest debentures will be paid to the Hollinger Participation Trust. The Partnership has agreed to exchange all interest and principal payments received by it into U.S. dollars at a rate of U.S. $0.6482 for each $1.00. The Partnership's exchange rate obligation will continue so long as the CanWest debentures are outstanding. The maturity date of the CanWest debentures is November 15, 2010. Given that the CanWest debentures are denominated in Canadian dollars, the cumulative unrealized foreign exchange loss on the residual obligation at December 31, 2002 totalled $5.2 million (2001 - $6.2 million). The net liability is included in other long-term liabilities.

In addition, in accordance with the terms of the participation agreement, the Partnership cannot transfer to an unaffiliated third party, until at least November 4, 2005, the equivalent of U.S. $50.0 million ($79.0 million as at December 31, 2002) principal amount of CanWest debentures.

Liquidity and Capital Resources

Financial Condition and Cash Flow

Cash flow from operations in 2002 amounted to $13.0 million compared with $26.1 million in 2001. After non-cash operating working capital changes, net cash from operations amounted to $4.5 million compared to $23.6 million in 2001. The reduction in cash flow from operations in 2002 compared with 2001 results from the sales of operations in 2001.

Regular distributions totalled $0.06 per Unit for the year, resulting in a distribution to Unitholders of approximately $11.0 million. At December 31, 2002, the Partnership had cash of $4.8 million.

The Partnership does not currently have nor does it require a bank credit facility. The Partnership relies on its largest Unitholder, HCPH, for all financing requirements.

Capital Expenditures

At the time the Partnership was established, it was anticipated that capital expenditures would amount to 1.5% of revenue. Accordingly, in calculating distributable cash, a reserve is set aside amounting to 1.5% of revenue with the actual capital expenditures being charged against this amount. In the year ended December 31, 2002, the capital expenditure reserve created was $1.4 million. The actual capital expenditures during the year amounted to $1.8 million. The excess expenditure over actual reserve of $0.4 million was deducted from the $7.2 million balance at the beginning of the period so that the capital expenditure reserve carried forward at December 31, 2002, was $6.8 million.

Units

On January 1, 2002, the Partnership had 182,911,295 Units outstanding. During 2002, 1,000 Unit options were exercised resulting in $350 of cash proceeds to the Partnership and 182,912,295 Units outstanding as at December 31, 2002.

Management Fees

HCNGP charged the Partnership a management fee of $3.0 million in the year ended December 31, 2002, compared with a management fee of $6.6 million in 2001. The management fee payable to HCNGP is based on 3% of gross revenue including interest and other income. The lower fee in 2002 results from the disposition of the majority of the Partnership's properties in 2001. The management services include overall direction and guidance on strategic and operational matters, financing, acquisitions and divestitures, as well as accounting, pension, benefits and other general administrative expenses.

Quantitative and Qualitative Disclosure about Market Risk

Competition

The majority of the Partnership's revenue is from advertising. Advertising lineage in the Partnership's newspapers is affected by a variety of factors including general economic performance and the level of consumer confidence. Historically, advertising revenue increases during periods of economic expansion and declines during periods of economic contraction. Newspaper publishing is both capital and labour intensive, and, as a result, has a high fixed cost structure. As revenue shrinks during economic downturns, margins decline due to the fixed cost structure. As well, specific advertising segments such as real estate, automotive and help wanted will be significantly affected by local factors.

Regional and national newspapers, radio, broadcast and cable television, direct mail and other media are the primary sources of competition for newspaper advertising and circulation revenue. The extent and nature of such competition is, in large part, determined by the location and the demographics of the market and the number of media alternatives in those markets. These competitive activities can and have, from time-to-time, had an adverse effect on revenues and operating costs.

Recently, Internet and other new media technologies have begun to compete with newspapers and other traditional media alternatives. The risk of this new competition is somewhat diminished as the limited budget of local advertisers focuses their advertising expenditures on local media such as newspapers that have more limited coverage areas. Many of the trade and vertical market publications owned by the Partnership can be accessed through the Internet.

The Partnership's magazine and specialty publication operations are concentrated in a number of cyclical industries – automotive, mining, and forest products. Performance of these sectors will have a significant effect on profitability, particularly on advertising-based products in the trade magazine group.

Labour Costs

Labour costs represented 42.5% of revenue in 2002. Several Partnership operations have collective labour agreements. Accordingly, labour disruptions are always possible.

Newsprint

Newsprint is the next largest single Partnership expenditure after labour costs, at approximately 7.5% of revenue. Management believes that newsprint prices may vary widely from time to time and could continue to show significant price variations in the future. During the first half of 2001, newsprint prices in North America were at their highest price per tonne since 1994 and 1995. However, the recessional climate in 2001 caused a significant decline in industry consumption and this, coupled with an abundant supply of competitively priced newsprint resulted in a downward trend in prices during the second half of 2001. This downward trend continued into the early part of 2002 but there was limited upward pressure in the second half of 2002. There are indications that prices have stabilized in the current range.

Foreign Exchange Rates

In 2001, the Partnership sold participations in $183.6 million principal amounts of debentures issued by a subsidiary of CanWest to a special purpose trust. In respect of these debentures, the Partnership would have been required to deliver, as at December 31, 2002, to the Hollinger Participation Trust U.S. $139.8 million in debentures, including U.S. $20.8 million in debentures recorded as paid-in-kind debenture interest, which equates to a fixed rate of exchange of 0.6482 United States dollars to each Canadian dollar. Given that the CanWest debentures are denominated in Canadian dollars and the obligation to the Hollinger Participation Trust is in U.S. dollars, the Partnership has a currency exposure which at December 31, 2002 was an obligation of $5.2 million and has been included in other long-term liabilities in the consolidated balance sheet. A $0.05 change in the Canadian dollar to U.S. dollar exchange rate applied to the outstanding obligation at December 31, 2002 would result in a $7.0 million change in the foreign currency exposure affecting the amount owing by the Partnership to the Hollinger Participation Trust.

Quarterly Results
(millions of dollars except per unit amounts)

	2002 – Quarter Ended				2001 – Quarter Ended			
	Mar 31	June 30	Sept 30	Dec 31	Mar 31	June 30	Sept 30	Dec 31
Total revenues	$ 20.2	$ 23.7	$ 20.4	$ 25.1	$ 62.7	$ 62.1	$ 33.2	$ 29.0
Net income (loss)	$ 2.0	$ 15.1	$ (4.6)	$ 8.1	$ 93.4	$ 22.7	$ 51.4	$ (75.0)
Net income (loss) per unit	$ 0.01	$ 0.08	$ (0.03)	$ 0.04	$ 0.51	$ 0.13	$ 0.28	$ (0.41)
Cash distributed per unit	$ 0.03	$ 0.03	-	-	$ 0.77	$ 0.06	$ 1.22	$ 1.48

Net income for the fourth quarter 2002 compared to 2001 has been affected by several major items.

Fourth quarter revenue from operations in 2002 totalled $25.1 million compared with $29.0 million in 2001 and there was a fourth quarter operating profit of $3.9 million in 2002 compared with operating profit of $1.6 million in 2001. The decline in revenue is largely the result of the sales of newspaper properties in 2001, and lower results at the remaining properties. The improved operating results are mainly due to decreased newsprint prices.

Special items in the fourth quarter of 2002 amounted to a gain of $0.9 million compared with a loss of $70.2 million in 2001. Special items in the fourth quarter of 2001 included losses on sales of CanWest investments partially reduced by gains on sale of certain properties to Osprey.

Net income in the fourth quarter of 2002 was $8.1 million compared with a net loss in the fourth quarter of 2001 of $75.0 million. The net loss in 2001 was primarily the result of loss on disposal of CanWest investments.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The management of Hollinger Canadian Newspapers G. P. Inc. is responsible for Hollinger Canadian Newspapers, Limited Partnership's consolidated financial statements, the notes thereto, and other financial information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Management is responsible for designing and maintaining internal control systems to provide reasonable assurance that the assets are safeguarded and that the accounting systems provide timely, accurate, and complete financial information. Where necessary, the consolidated financial statements and other financial information include amounts that are estimates based on the judgement of the Partnership's management.

The Board of Directors is responsible for ensuring that management fulfills its financial reporting and internal control responsibilities. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board, which is comprised of three Directors, two of whom are non-management Directors. The Committee meets periodically with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged, to review the Partnership's audited consolidated financial statements, and to recommend approval of the consolidated financial statements to the Board.

KPMG LLP, the independent auditors appointed by the Board of Directors, has audited the consolidated financial statements in accordance with generally accepted auditing standards and has expressed their opinion on the consolidated financial statements. KPMG LLP has full and unrestricted access to the Audit Committee.

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AUDITORS' REPORT

To the Limited Partners

We have audited the consolidated balance sheets of Hollinger Canadian Newspapers, Limited Partnership as at December 31, 2002 and 2001 and the consolidated statements of income, partners' equity and cash flows for the years then ended. We have also audited the consolidated statements of distributable cash for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the management of the General Partner. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the General Partner's management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2002 and 2001 and the results of its operations, cash flows, and distributable cash for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
February 28, 2003

Consolidated Statements of Distributable Cash

(thousands of dollars except per unit amounts)		Year ended December 31 2002		Year ended December 31 2001
Net income allocable to the Partnership, being	$	**20,600**	$	92,580
Add (Deduct):				
Special items		**(2,229)**		(47,553)
Non-cash interest income		**(8,838)**		(26,750)
Depreciation and amortization		**1,009**		7,775
Interest expense		**-**		494
Income taxes		**745**		2,567
		11,287		29,113
Deduct:				
Capital expenditure reserve		**(1,342)**		(2,805)
Interest, principal and income taxes		**(845)**		(3,061)
Distributable cash		**9,100**		23,247
Cash distributed in excess of distributable cash		**1,875**		13,335
Cash distributed from operations of the Partnership	$	**10,975**	$	36,582
Special distribution (nil per unit in 2002; $3.33 per unit in 2001)	$	**-**	$	609,095
Total cash distributed	$	**10,975**	$	645,677

Capital Expenditure Reserve				
Balance beginning of year	$	**7,233**	$	6,967
Capital expenditure reserve	$	**1,342**	$	2,805
Less: current capital expenditures	$	**(1,783)**	$	(2,539)
Balance end of year	$	**6,792**	$	7,233

Net income per unit	$	**0.11**	$	0.51
Cash distributed from operations per unit	$	**0.06**	$	0.20
Special distribution per unit	$	**-**	$	3.33
Year to date cash distributed per unit	$	**0.06**	$	3.53
Number of units outstanding		**182,912,295**		182,911,295
Weighted average number of units outstanding		**182,912,122**		182,910,991

Consolidated Statements of Income

(thousands of dollars)	Year ended December 31, 2002	Year ended December 31, 2001
Revenue from operations		
Advertising	$ **62,059**	$ 125,349
Circulation	**16,264**	41,041
Job printing and other	**11,118**	20,642
	89,441	187,032
Cost of Operations		
Labour	**37,984**	73,558
Newsprint	**6,730**	19,032
Other operating costs	**35,686**	65,979
	80,400	158,569
Operating profit	**9,041**	28,463
Depreciation and amortization	**1,009**	7,775
Interest expense	-	494
Net foreign currency (gain) loss (note 4)	**(1,140)**	4,674
Investment and other income	**(9,944)**	(32,074)
	(10,075)	(19,131)
Income before special items and income taxes	**19,116**	47,594
Special items (note 11)	**2,229**	47,553
Income before income taxes	**21,345**	95,147
Income taxes	**745**	2,567
Net income allocable to the Partnership	$ **20,600**	$ 92,580

Consolidated Statements of Partners' Equity

(thousands of dollars)	Year ended December 31 2002	Year ended December 31 2001
Balance at beginning of year	**$ 126,627**	$ 679,718
Issue of Units (note 10)	**1**	6
Net income allocable to the Partnership	**20,600**	92,580
Cash distributions	**(10,975)**	(645,677)
Balance at end of year	**$ 136,253**	$ 126,627

Consolidated Balance Sheets

(thousands of dollars)	December 31 2002	December 31 2001
Assets		
Current assets		
Cash	$ **4,834**	$ 13,151
Accounts receivable	**16,936**	17,855
Amounts receivable (note 3c))	**12,701**	11,801
Inventory	**917**	1,322
Prepaid expenses	**698**	269
	36,086	44,398
Investments, at cost (note 4)	**82,002**	72,259
Capital assets (note 5)	**10,438**	10,147
Goodwill (note 6)	**26,993**	17,018
Circulation (note 6)	**-**	9,975
Future income taxes	**174**	368
Other assets (note 7)	**5,363**	5,540
	$ **161,056**	$ 159,705
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ **8,431**	$ 8,139
Distributions payable	**-**	1,949
Income taxes payable	**1,201**	2,350
Deferred revenue	**5,171**	5,235
Amounts due to related parties, net (note 16)	**1,163**	5,829
Long-term debt due within one year (note 8)	**-**	100
	15,966	23,602
Other long-term liabilities (note 9)	**8,837**	9,476
	24,803	33,078
Partners' equity (note 10)	**136,253**	126,627
	$ **161,056**	$ 159,705

Commitments (note 13)

Approved by Hollinger Canadian Newspapers, G.P. Inc. as General Partner

Director

Director

Consolidated Statements of Cash Flows

(thousands of dollars)	Year ended December 31, 2002	Year ended December 31, 2001
Cash provided by (used in):		
Operations		
Cash flow provided by operations (note 12)	**$ 13,010**	$ 26,056
Change in non-cash operating working capital	**(8,479)**	(2,427)
	4,531	23,629
Financing activities		
Issuance of Partnership Units	**1**	6
Distributions to Unitholders	**(10,975)**	(645,677)
Increase (decrease) in long-term debt	**(100)**	53
	(11,074)	(645,618)
Investment activities		
Additions to capital assets	**(1,783)**	(2,539)
Proceeds on disposal of businesses	**-**	369,854
Proceeds on disposal of investments	**-**	230,960
Proceeds on disposal of capital assets	**9**	6
	(1,774)	598,281
Decrease in cash position	**(8,317)**	(23,708)
Cash at beginning of year	**13,151**	36,859
Cash at end of year	**$ 4,834**	$ 13,151

Supplemental disclosure of cash flow information		
Interest paid	**$ -**	$ 494
Income taxes paid	**$ 1,742**	$ 503

Notes to Consolidated Financial Statements
(Tabular amounts are in thousands of dollars except per Unit amounts)

Years Ended December 31, 2002 and 2001

1. Description of the Business

Hollinger Canadian Newspapers, Limited Partnership (the "Partnership") is a limited partnership established under the laws of the Province of Ontario on April 14, 1999, by Hollinger Canadian Publishing Holdings Co. (formerly Hollinger Canadian Publishing Holdings Inc. and successor to the operations of XSTM Holdings (2000) Inc.)(formerly Southam Inc.))("HCPH"). Hollinger Canadian Newspapers G.P. Inc. ("HCNGP"), a wholly owned subsidiary of HCPH, is the general partner. HCPH has an 87% ownership interest in the Partnership. The Partnership operates and tracks its results in one operating segment.

The Partnership has entered into a management agreement with HCNGP to provide the Partnership with certain management, administrative, operational and other services in exchange for a management fee of 3% of gross revenue including interest and other income of the Partnership and reimbursement of certain expenses.

2. Significant Accounting Policies

Basis of preparation
The financial information contained in the accompanying consolidated financial statements has been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized below.

Principles of consolidation
The consolidated financial statements include the accounts of two wholly owned subsidiaries, HCN Publications Company and 3050944 Nova Scotia ULC. All intercompany transactions have been eliminated.

Inventory
Inventory, principally printing material, is valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

Capital assets
Land, buildings and machinery and equipment are stated at cost. Cost represents the cost of capital assets acquired, constructed or developed over time including costs related to interest and preproduction prior to the asset being substantially complete and ready for use. Depreciation is provided primarily on a straight-line basis, using rates of 2½ percent per annum for buildings and 4 to 20 percent per annum for machinery and equipment.

Goodwill and other intangible assets
Goodwill represents the excess of acquisition costs over estimated fair value of net assets, including definite lived intangibles, acquired in business combinations. Until December 31, 2001, goodwill amortization was calculated using the straight-line method over respective annual useful lives to a maximum of 40 years.

Circulation represented the long-term readership of paid newspapers. Prior to January 1, 2002, the Partnership allocated a portion of the purchase price discrepancy in each business acquired to the cost of circulation and capitalized costs incurred to increase the long-term readership. Circulation was amortized on a straight-line basis over 40 years.

Effective January 1, 2002, the Partnership adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3062, "Goodwill and Other Intangible Assets" ("Section 3062") and certain transitional provisions of CICA Handbook Section 1581, "Business Combinations" ("Section 1581"). The new standards require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. The standards also specify criteria that intangible assets must meet to be recognized and reported apart from goodwill. In addition, Section 3062 requires that intangible assets with estimable useful lives be amortized over their respective useful lives to their estimated residual values and reviewed for impairment by assessing the recoverability of the carrying value.

As of the date of adoption of Section 3062 and certain transitional provisions of Section 1581, the Partnership has discontinued amortization of all existing goodwill, evaluated existing intangible assets and has made the necessary reclassifications in order to conform with the new criteria for recognition of intangible assets apart from goodwill. Amounts previously ascribed to circulation have been reclassified to goodwill effective January 1, 2002.

In connection with the Section 3062 transitional impairment valuation, the Partnership was required to assess whether goodwill was impaired as of January 1, 2002. The fair values of the Partnership's reporting units were determined primarily using a multiple of maintainable normalized cash earnings. As a result of this transitional impairment test, and based on the methodology adopted, the Partnership has determined that no impairment existed both at the date of adoption and at year end for purposes of the annual impairment test.

In addition to the transitional goodwill impairment test as of January 1, 2002, the Partnership is required to test goodwill for impairment on an annual basis for each of its reporting units. The Partnership is also required to evaluate goodwill for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Certain indicators of potential impairment that could impact the Partnership's operating units include, but are not limited to, the following: (i) a significant long-term adverse change in the business climate that is expected to cause a substantial decline in advertising spending, (ii) a permanent significant decline in an operating units' readership, (iii) a significant adverse long-term negative change in the demographics of an operating unit's readership and (iv) a significant technological change that results in a substantially more cost-effective method of advertising than offered by other operating units.

(Tabular amounts are in thousands of dollars except per Unit amounts)

Effective January 1, 2002, the Partnership had unamortized goodwill in the amount of $27.0 million, which is no longer being amortized. This change in accounting policy cannot be applied retroactively and the amounts presented for prior periods have not been restated for this change. If this change in accounting policy were applied to the reported consolidated statements of income for the year ended December 31, 2001, the impact of the change, in respect of goodwill and intangible assets with indefinite useful lives not being amortized, would be as follows:

	2001
Net income allocable to the Partnership – as reported	$ 92,580
Add goodwill and intangible asset amortization, net of income tax	3,509
Adjusted net income allocable to the Partnership	$ 96,089
Net income per unit	$ 0.51
Adjusted net income per unit	$ 0.53

Adjusted net income allocable to the Partnership, noted above, reflects only the reduction in goodwill amortization expense and does not give effect to the impact that this change in accounting policy would have had on the gains and losses resulting from the disposal of operations during 2001.

Deferred revenue
Deferred revenue represents subscription payments that have not yet been earned and are recognized on a straight-line basis over the term of the related subscription.

Employee benefit plans
The Partnership accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Partnership has adopted the following policies with respect to employee benefit plans:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by such plans ranges from 10 to 14 years.

Stock-based compensation and other stock-based payments
The Partnership has employee stock-based compensation plans. Until December 31, 2001, compensation expense was not recognized on the grant or modification of options under these plans.

Effective January 1, 2002, the Partnership adopted the new CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments" ("Section 3870"). Under Section 3870, the Partnership is required to adopt, on a prospective basis, the fair value-based method to account for all stock-based payments made by the Partnership to non-employees, and employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2002. Non-employees in this instance would constitute any employees of HCPH, Hollinger Inc., Hollinger International Inc., The Ravelston Corporation Limited or their related subsidiaries with exception of the Partnership. For all other stock-based payments, the Partnership has elected to use the settlement method of accounting, whereby cash received on the exercise of stock options is recorded as capital stock.

Under the fair value-based method, stock options granted to non-employees by the Partnership are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. Such fair value determined is recorded as a dividend-in-kind in the Partnership's financial statements with no impact on the Partnership's net income. Section 3870 has been applied prospectively to all stock-based payments to non-employees granted on or after January 1, 2002.

Income taxes
Income taxes, other than those payable or deferred by the Partnership's two wholly owned subsidiaries, are the responsibility of the individual Unitholders and accordingly are not recorded in these consolidated financial statements.

Revenue recognition
The Partnership's sources of revenue comprise advertising, circulation and job printing. As a general principle, revenue is recognized when the following criteria are met: (a) persuasive evidence of an arrangement exists, (b) delivery has occurred and services have been rendered, (c) the price to the buyer is fixed or determinable, and (d) collectibility is reasonably assured or is probable. Advertising revenue, being amounts charged for space purchased in the Partnership's newspapers and magazines, is recognized upon publication of the advertisements. Circulation revenue from subscribers, billed to customers at the beginning of a subscription period, is recognized on a straight-line basis over the term of the related subscription. Deferred revenue represents subscription receipts that have not been earned. Circulation revenue from single copy sales is recognized at the time of distribution. In both cases, circulation revenue is recorded net of fees or commissions paid to distributors and retailers and less an allowance for returned copies. Job printing revenue, being charges for printing services provided to third parties, is recognized upon delivery.

Distributable cash
The amount of distributable cash to be distributed monthly to the Unitholders is based on the amount by which monthly income before special items, non-cash interest income, amortization, interest expense and income taxes, and cash on hand at the end of the month exceeds the aggregate of reserves for that month and interest, principal and other cash borrowing costs paid during the month.

Reserves in any month are equal to the aggregate of a capital expenditure reserve equal to 1.5% of gross revenue and the aggregate of amounts, if any, determined by the General Partner to (i) finance current and anticipated liabilities including income taxes of the Partnership's subsidiaries, (ii) finance additional capital upgrades and improvements, and (iii) stabilize distributions to Unitholders throughout the year.

Distributable cash per unit
Distributable cash per unit is calculated by dividing distributable cash by the weighted average number of partnership units outstanding.

Use of estimates
The preparation of consolidated financial statements requires the Partnership to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Partnership evaluates its estimates, including those related to bad debts, investments, intangible assets, income taxes, restructuring, pensions and other post-retirement benefits, contingencies and litigation. The Partnership relies on historical experience and on various other assumptions that are believed to be reasonable under the circumstances in making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Reclassifications
Certain 2001 amounts in the consolidated financial statements have been reclassified to conform with the 2002 presentation.

3. Dispositions

a) In January 2001, the Partnership completed the sale of UniMédia Company to Gesca Limited, a subsidiary of Power Corporation of Canada for proceeds of approximately $135.0 million. The publications sold represented the French language newspapers of the Partnership including three paid circulation dailies and 15 weeklies published in Quebec and Ontario. A gain of approximately $75.1 million was recognized on this sale which was included in special items.

b) In two separate transactions in July and November 2001, the Partnership completed the sale of most of its remaining Canadian newspapers to Osprey Media Group Inc. ("Osprey") for total cash proceeds of approximately $255.0 million plus closing adjustments primarily for working capital. Included in these sales were community newspapers in Ontario such as *The Kingston Whig-Standard*, *The Sault Star*, the *Peterborough Examiner*, the *Chatham Daily News* and *The Observer* (Sarnia). A gain of approximately $57.2 million was recognized on these sales. The former Chief Executive Officer of the Partnership is a minority shareholder and Chief Executive Officer of Osprey.

c) On November 16, 2000, HCPH and the Partnership completed the sale of a number of their community newspapers and related assets to CanWest Global Communications Corp. ("CanWest"). Included in the sale by the Partnership were *The Windsor Star*, the *Regina Leader Post*, the *Saskatoon Star Phoenix* and the *Times-Colonist* (Victoria). The aggregate sale price of the properties sold to CanWest was $2.8 billion, plus closing adjustments for working capital and cash flow, of which $1,016.6 million, including interest, represents the proceeds to the Partnership. The sale resulted in the Partnership receiving $569.5 million in cash, $207.2 million in voting and non-voting shares of CanWest valued for these purposes at $25.00 per share, and subordinated non-convertible debentures of a holding company in the CanWest group having an aggregate principal amount of $239.9 million. For purposes of recording the transaction, the CanWest voting and non-voting shares were recorded at their fair value of $128.5 million and the non-convertible debentures at their fair value of $223.2 million on November 16, 2000. This disposition resulted in a gain of $455.2 million and was included in the 2000 consolidated statement of income in special items.

   In 2001, certain of the closing purchase and sale adjustments were finalized, resulting in a loss in 2001 of approximately $10.9 million. At December 31, 2002, approximately $12.7 million in respect of closing adjustments relating to the sale remained due to the Partnership and is included in amounts receivable in the consolidated balance sheet. The amount outstanding is subject to negotiation between CanWest and the Partnership.

(Tabular amounts are in thousands of dollars except per Unit amounts)

4. Investments

	2002	2001
CanWest debentures (a)	$81,950	$72,259
Other	52	-
	$82,002	$72,259

a) The CanWest debentures at December 31, 2000 had a principal amount of $239.9 million. The debentures were recorded at their fair value on November 16, 2000 of $223.2 million. Interest is calculated, compounded and payable semi-annually in arrears at a rate of 12.125% per annum. At any time prior to November 15, 2005, CanWest may elect to pay interest on the debentures by way of non-voting shares of CanWest, debentures in substantially the same form as the CanWest debentures, or cash. Subsequent to November 5, 2005, interest shall be paid in cash.

During 2002, the Partnership received additional CanWest debentures with a principal amount of $11.1 million (2001 - $21.0 million) in payment of the interest due on existing debentures. These debentures have been recorded at their fair value. During 2001, debentures with a principal amount of $183.6 million were disposed of to the Hollinger Participation Trust, discussed below. As at December 31, 2002, the Partnership holds debentures with a principal amount of $88.4 million (2001 - $77.3 million).

Since the Partnership is prohibited from selling the CanWest debentures prior to 2003, in December 2001, the Partnership sold participation interests in $183.6 million principal amount of CanWest debentures to a special purpose trust ("Hollinger Participation Trust"). Units of the Hollinger Participation Trust were sold by the Hollinger Participation Trust to arm's length third parties. This transaction resulted in net proceeds to the Partnership of $149.8 million and has been accounted for as a sale of the Partnership's CanWest debentures. The net loss on these transactions amounted to $29.6 million and was included in special items in 2001.

(Tabular amounts are in thousands of dollars except per Unit amounts)

The Partnership has not retained an interest in the Hollinger Participation Trust nor does it have any ongoing involvement in the Hollinger Participation Trust. The Hollinger Participation Trust and its investors have no recourse to the Partnership's other assets in the event that CanWest defaults on its debentures. Under the terms of the Hollinger Participation Trust, the interest payments received by the Partnership in respect of the underlying CanWest debentures will be paid to the Hollinger Participation Trust. The Partnership has agreed to exchange all interest and principal payments received by it into U.S. dollars at a rate of U.S. $0.6482 for each $1.00. The Partnership's exchange rate obligation will continue so long as the CanWest debentures are outstanding. The maturity date of the CanWest debentures is November 15, 2010. Given that the CanWest debentures are denominated in Canadian dollars, the cumulative unrealized foreign exchange loss on the residual obligation at December 31, 2002 totalled $5.2 million (2001 - $6.2 million). The net liability is included in other long-term liabilities (notes 9).

In addition, in accordance with the terms of the participation agreement, the Partnership cannot transfer to an unaffiliated third party, until at least November 4, 2005, the equivalent of U.S. $50.0 million ($79.0 million as at December 31, 2002) principal amount of CanWest debentures.

5. Capital Assets

	2002	2001
Cost:		
Land	$ 1,680	$ 1,680
Buildings	5,595	5,575
Machinery and equipment	20,291	23,026
	27,566	30,281
Accumulated amortization :		
Buildings	1,796	1,664
Machinery and equipment	15,332	18,470
	17,128	20,134
Net book value	$ 10,438	$ 10,147

Amortization of capital assets amounted to $1.0 million in 2002 and $4.1 million in 2001.

(Tabular amounts are in thousands of dollars except per Unit amounts)

6. Goodwill

As described in note 2 of the consolidated financial statements, the Partnership adopted Section 3062 and certain transitional provisions of Section 1581 effective January 1, 2002. The carrying amount of goodwill for the year ended December 31, 2002 is as follows:

	2002	2001
Goodwill, net of accumulated amortization of $13,164,000 (2001 - $7,219,000)	$26,993	$17,018

Upon adoption of Section 3062, intangible assets totalling $9,975,000 net of accumulated amortization of $5,945,000, which were previously ascribed to circulation, were reclassified to goodwill.

7. Other Assets

	2002	2001
Deferred pension asset (note 15)	$ 5,363	$ 5,540

8. Long-Term Debt

In July 2002, an amount totalling $100,000 representing the current amount of long-term debt was repaid.

9. Other Long-Term Liabilities

	2002	2001
Foreign currency obligation (note 4)	$ 5,208	$ 6,179
Pension obligations (note 15)	978	864
Other post-retirement obligations (note 15)	2,651	2,433
	$ 8,837	$ 9,476

(Tabular amounts are in thousands of dollars except per Unit amounts)

10. Partners' Equity

The Partnership is authorized to issue an unlimited number of units. Each unit represents an identical limited partnership interest in the Partnership and entitles the holder to participate equally in the distribution of distributable cash. Units are not subject to future calls or assessments and entitle the holder to limited liability. Each unit is transferable, subject to the requirements referred to in the Partnership Agreement.

During the year, units were issued as follows:

	Number of Units	
	2002	2001
Units outstanding at beginning of year	182,911,295	182,909,495
Unit options exercised for cash of $350 (2001 - $6,000)	1,000	1,800
Units outstanding at end of year	182,912,295	182,911,295

The Partnership has a stock option plan for its employees under which it may grant options to certain key executives of the Partnership for up to 5,000,000 units. These options give the holder the right to purchase, subject to the executives' entitlement to exercise, one partnership unit for each option held. The options are exercisable to the extent of 25% thereof at the end of each of the first through fourth years following granting, on a cumulative basis. Unexercised options expire one month following the date of termination of the executives' employment except in the case of retirement at normal retirement age, death or certain offers made to all or substantially all of the holders of partnership units of the Partnership, in which event all unexercised vested options become exercisable in full. In conjunction with special distributions made to unitholders on December 1, 2000, March 30, 2001, August 30, 2001 and December 28, 2001 the original exercise prices of the outstanding options were adjusted.

(Tabular amounts are in thousands of dollars except per Unit amounts)

Stock option activity with respect to the Partnership's stock options are as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding as at December 31, 2000	1,672,250	$ 3.29
Options exercised	(1,800)	3.40
Options cancelled	(98,500)	2.34
Options outstanding at December 31, 2001	1,571,950	$ 1.88
Options exercised	(1,000)	0.35
Options expired	(609,450)	1.73
Options cancelled	(36,000)	2.29
Outstanding at December 31, 2002	925,500	$ 1.94

Exercise Price	Outstanding Options	Exercisable Options	Date Granted	Expiry Date
$ 3.85	420,500	315,375	June 1, 1999	June 1, 2005
$ 0.35	505,000	252,500	February 24, 2000	February 24, 2006
	925,500	567,875		

There have been no unit options granted by the Partnership during 2002. Therefore, the prospective application of Section 3870 has no effect on the Partnership's disclosure of stock compensation expense.

11. Special Items

	2002	2001
Gain on sale of UniMédia Company (note 3)	$ -	$ 75,095
Gain on sale of operations to Osprey (note 3)	-	57,208
Closing adjustments on sale to CanWest (note 3)	-	(10,867)
Loss on sale of investments (note 4)	-	(76,945)
Other	2,229	3,062
	$ 2,229	$ 47,553

(Tabular amounts are in thousands of dollars except per Unit amounts)

12. Cash Flow Provided by Operations

Cash flow provided by operations is determined as follows:

	2002	2001
Net income allocable to the Partnership	$ 20,600	$ 92,580
Items not involving cash:		
Depreciation and Amortization	1,009	7,775
Future income taxes	194	1,557
Gains on sale of businesses	-	(130,566)
Loss on sale of investments	-	76,945
Non-cash interest income	(8,838)	(26,750)
Other	45	4,515
	$ 13,010	$ 26,056

13. Commitments

The newspapers have obligations under long-term operating leases extending for various periods to 2007. The minimum aggregate payments in each of the next five years are:

2003	$ 1,542
2004	1,591
2005	1,190
2006	371
2007	80
Thereafter	-
	$ 4,774

14. Financial Instruments

Fair values:
The carrying amount of cash, accounts receivable, amounts receivable, accounts payable and accrued liabilities, distributions payable, and due to related parties approximates their fair values due to the relatively short periods to maturity of the instruments.

(Tabular amounts are in thousands of dollars except per Unit amounts)

Credit risk:
The Partnership's operations are subject to credit risk through trade receivables. However, the Partnership does not have a significant exposure to any individual customer or counter party. This risk is minimized because of the broad customer base. Cash is placed with high credit quality financial institutions.

15. Employee Benefit Plans

Defined Contributions Plans
The Partnership sponsors 10 defined contribution pension plans and contributed $157,500 to the plans in 2002 ($167,500 in 2001).

Defined Benefit Plans
The Partnership has three single-employer defined benefit pension plan. The Partnership's contributions to these plans for the years ended December 31, 2002 and 2001 were $26,000 and $318,000, respectively.

The components of net period benefit cost for the years ended December 31are as follows:

	2002	2001
Service cost	$ 843	$ 1,072
Interest cost	1,213	1,632
Expected return on plan assets	(1,489)	(2,250)
Settlement	-	2,836
Amortization of net loss	147	568
Valuation allowance provided against prepaid benefit cost	(327)	339
Net period benefit cost	$ 387	$ 4,197

The table below sets forth the reconciliation of the benefit obligation as of December 31:

	2002	2001
Benefit obligation at the beginning of the year	$ 18,802	$ 119,285
Service cost	843	1,072
Interest cost	1,213	1,632
Participant contributions	325	809
Changes in assumptions	-	(722)
Actuarial loss	2,959	1,236
Divestiture	-	(90,309)
Settlement and curtailment gains	-	(12,973)
Benefits paid	(1,085)	(1,228)
Benefit obligation at the end of the year	$ 23,057	$ 18,802

(Tabular amounts are in thousands of dollars except per Unit amounts)

The table below sets forth the change in plan assets for the year ended December 31:

	2002	2001
Fair value of plan assets at the beginning of the year	$ 21,685	$ 133,446
Adjustment to opening balance	-	(1,127)
Actual return on plan assets	8	1,297
Employer contributions	26	318
Participant contributions	325	809
Settlement gain	-	(15,245)
Divestiture	-	(96,585)
Benefits paid	(1,085)	(1,228)
Fair value of plan assets at the end of the year	$ 20,959	$ 21,685

The following table indicates the prepaid benefit costs as at December 31:

	2002	2001
Funded status	$ (2,098)	$ 2,823
Unrecognized net actuarial loss	6,483	2,180
Prepaid benefit cost	4,385	5,003
Valuation allowance	-	(327)
Prepaid benefit costs, net of valuation allowance	$ 4,385	$ 4,676

The above prepaid benefit costs is classified in the consolidated balance sheet as follows:

	2002	2001
Deferred pension asset (note 7)	$ 5,363	$ 5,540
Pension obligation (note 9)	(978)	(864)
Prepaid benefit costs, net of valuation allowance	$ 4,385	$ 4,676

The ranges of assumptions used for the Partnership plans were as follows:

	2002	2001
Discount rate	6.25%	6.5%
Long-term rate of return on plan assets	6.5 - 7.0%	7.0% - 9.0%
Compensation increase	4.0 - 4.5%	4.0% - 4.5%

(Tabular amounts are in thousands of dollars except per Unit amounts)

Post-Retirement Benefits
The Partnership sponsors two post-retirement plans that provide post-retirement benefits to certain employees, some of which are former or inactive employees.

The components of net period post-retirement (benefit) cost for the year ended December 31 is as follows:

	2002	2001
Service cost	$ 66	$ 125
Interest cost	97	187
Amortization of (gains) losses	55	(157)
Settlements and curtailments	-	(2,671)
Net period post-retirement (benefit) cost	$ 218	$ (2,516)

The table below sets forth the reconciliation of the accumulated post-retirement benefit obligation as of December 31:

	2002	2001
Accumulated post-retirement benefit obligation at the beginning of the year	$ 2,965	$ 7,893
Adjustment to opening balance	1,157	1,537
Service cost	66	125
Interest cost	97	187
Actuarial losses	76	63
Changes in assumptions	-	726
Divestitures	-	(4,895)
Curtailment gains	-	(2,671)
Accumulated post-retirement benefit obligation at the end of the year	$ 4,361	$ 2,965

The fair value of plan assets was $1,102,000 at December 31, 2002 (2001 - nil).

(Tabular amounts are in thousands of dollars except per Unit amounts)

The table below sets forth the plan's funded status reconciled to the amounts recognized in the Partnership's financial statements:

	2002	2001
Unfunded status	$ (3,259)	$ (2,965)
Unrecognized net loss	608	532
Accrued post-retirement liability (note 9)	$ (2,651)	$ (2,433)

The average discount rate used in determining the accumulated post-retirement benefit obligation was 6.25% for 2002 and 6.5% for 2001. All benefits under the plan are paid for by the Partnership's contribution to the plan. For measuring the expected post retirement benefit obligation of former employees, an 8% and a 9% annual rate of increase in the per capita claims was assumed for 2002 and 2001 respectively. This rate was assumed to decrease to 5% by 2005 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. If the health care cost trend rate were increased 1%, the accumulated post retirement benefit obligation as of December 31, 2002, would have increased $117,000 (2001 - $46,000) and the effect of this change on the aggregate of service and interest cost for 2002 would have been an increase of $12,000 (2001 - $17,000). If the health care cost trend rate were decreased 1%, the accumulated post retirement benefit obligation as of December 31, 2002, would have decreased by $108,000 (2001 - $29,000) and the effect of this change on the aggregate of service and interest cost for 2002 would have been a decrease of $9,000 (2001 - $13,000).

16. Related Party Transactions

	2002	2001
Amounts due to related parties:		
Domgroup Ltd.	$ 613	$ 3
HCPH	10,199	15,006
Amounts due from related parties		
Chicago Sun-Times	(852)	(1,080)
Hollinger (Challenger) Holdings Co.	(697)	-
Hollinger International Publishing Inc. ("HIPI")	(8,100)	(8,100)
	$ 1,163	$ 5,829

Amounts due to Domgroup Ltd. and amounts due from Chicago Sun-Times and Hollinger (Challenger) Holdings Co. are non-interest bearing, due on demand with no fixed terms of repayment. They are measured at the exchange amount of consideration established and agreed to by the related parties.

(Tabular amounts are in thousands of dollars except per Unit amounts)

Amounts due to HCPH represents fees owing in connection with the management agreement with HCNGP, a wholly owned subsidiary of HCPH. Amounts due from HIPI are a result of the 2001 sale of newspaper properties to Osprey. Each of these balances is due on demand with no fixed terms of repayment.

A summary of all significant transactions with related parties other than those discussed in note 3(b) or above is as follows:

	2002	2001
Management fee expense	$ 2,982	$ 6,573

Management fee expenses represent 3% of gross revenue including interest and other income for the 12 months ended December 31, 2002, and 12 months ended December 31, 2001 and is paid to HCNGP.

In addition to the above, included in distributions payable at December 31, 2001 is $1.7 million payable to related parties. There is no amount payable at December 31, 2002.

During the course of 2001, in connection with the sales of newspaper properties, Hollinger International Inc., Hollinger Inc., The Ravelston Corporation Limited, Lord Black of Crossharbour PC(C), OC, KCSG and other senior executives entered into non-competition agreements with the purchasers. No consideration was paid by the Partnership in respect of those non-competition agreements.

17. Recent Accounting Pronouncements

a) Impairment of long-lived assets

In December 2002, CICA issued Handbook Section 3063, "Impairment of Long-Lived Assets" ("Section 3063") and revised Section 3475, "Disposal of Long-Lived Assets and Discontinued Operations" ("Revised Section 3475"). These sections supersede the write-down and disposal provision of Section 3061, "Property, Plant and Equipment", and Section 3475, "Discontinued Operations". The new standards are consistent with U.S. Generally Accepted Accounting Principles. Section 3063 establishes standards for recognizing, measuring and disclosing impairment of long-lived assets held for use. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the projected future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value. Revised Section 3475 provides specific criteria for and requires separate classification for assets held for sale and for these assets to be measured at the lower of their carrying amounts and fair value, less costs to sell. Revised Section 3475 also broadens the definition of discontinued operations to include all distinguishable components of an entity that will be eliminated from operations. Section

3063 is effective for the Partnership's 2004 fiscal year; however, early application is permitted. Revised Section 3475 is applicable to disposal activities committed to by the Partnership after May 1, 2003; however, early application is permitted. The Partnership expects that the adoption of these standards will have no material impact on its financial position, results of operations or cash flow at this time.

b) Disclosure of guarantees

In February 2003, the CICA issued Accounting Guideline 14, "Disclosure of Guarantees" ("AcG 14"). AcG 14 requires certain disclosures to be made by a guarantor in its interim and annual financial statements for periods beginning after January 1, 2003. The Partnership is currently determining the impact these new disclosures will have on its consolidated financial statements.

CORPORATE GOVERNANCE

The business of the Partnership is the ownership, operation, acquisition and divestiture of newspapers and related businesses. The General Partner of the Partnership is Hollinger Canadian Newspapers G.P. Inc.. Pursuant to the terms of a Partnership Agreement, the General Partner has exclusive authority to manage and operate the business of the Partnership and to bind the Partnership. The General Partner does not and cannot carry on any other business.

The Board of Directors of the General Partner consists of 12 directors, three of whom are (as required by the Partnership Agreement) independent directors, in that they are not employees or officers of the General Partner nor directors, employees or officers of the shareholders of the General Partner or their respective related parties. The directors of the General Partner, including the independent directors, are elected by the shareholders of the General Partner alone, rather than by the Unitholders. The directors of the General Partner receive an annual yearly fee of $15,000 plus $2,000 for each directors' meeting attended; $3,000 for serving as chairman of any committee of the board; and $2,000 for each committee meeting attended. The Partnership maintains liability insurance for the directors and officers of the General Partner subject to a policy limit of $140.0 million per claim or in any one year.

The Partnership Agreement provides that all material transactions and agreements involving the Partnership must be approved by the General Partner's Board of Directors. Where material transactions, agreements or disputes are between the Partnership and the General Partner or any of its affiliates, they must be approved or addressed by a majority of the independent directors.

The Partnership Agreement limits the authority of the General Partner in certain respects. Amongst other matters, the General Partner may not permit aggregate principal borrowings of the Partnership to exceed $75.0 million nor incur liens or effect asset sales except in compliance with the Partnership Agreement.

The Partnership has entered into a Management Agreement under which HCNGP has agreed to provide management services to the Partnership in exchange for a management fee equal to 3% of the gross revenues including interest and other income of the Partnership. The Partnership has in addition entered into a Master Services Agreement with HCNGP under which it has agreed to provide the Partnership, at cost and without markup, with certain ongoing services including accounting, human resources, production, travel, advertising, editorial and information technology services. Certain of these costs are subject to annual review by the independent directors of the General Partner.

Conflicts of interest could arise as a result of the relationship between the Partnership on the one hand and the General Partner or its affiliates on the other. As a reporting issuer under securities legislation of certain provinces of Canada, the Partnership is subject to the same rules and policies relating to conflicts of interest and related party transactions as all other reporting issuers. However, the Partnership Agreement provides that in resolving any such conflict, the General Partner is entitled to consider the relative interests of all the parties involved or affected, as well as customary or accepted industry practices, generally accepted accounting principles and practices and the intention of the General Partner and its affiliates that the Partnership will be their principal vehicle for owning, operating, acquiring and selling community newspapers in Canada. Thus, unlike a trustee with an obligation to act solely in the best interests of the beneficiary, the General Partner may consider the interests of all parties to the conflict of interest.

Under the Partnership Agreement and applicable securities legislation, Unitholders of the Partnership are entitled to receive an annual report containing audited financial statements for the Partnership, a copy of the Auditors' report, and a copy of Management's Discussion and Analysis. The General Partner selects the Auditor on behalf of the Partnership. Unitholders are also entitled to receive all other required reports and financial statements, including unaudited interim financial statements respecting the first, second and third fiscal quarters. The General Partner has established an Audit Committee which is responsible for, amongst other matters, reviewing all annual and interim financial statements to be sent to Unitholders. A majority of the members of the Audit Committee are independent directors of the General Partner.

Copies of the Partnership Agreement and any documents filed from time to time with securities commissions on behalf of the Partnership are available upon request from the Secretary of the General Partner.

Directors and Management

BOARD OF DIRECTORS OF THE GENERAL PARTNER

Peter Y. Atkinson
Director, Executive Vice-President and Secretary

Donald Babick
Director

Barbara Amiel Black
Director and Vice-President, Editorial

Lord Black of Crossharbour, PC(C), OC, KCSG
Director, and Chief Executive Officer

J. A. Boultbee
Director and Executive Vice-President

Robert G. Calvert
Director

Daniel W. Colson
Director and Vice-Chairman

J. David Dodd
Director, Senior Vice-President and Chief Financial Officer

The Hon. Charles L. Dubin, OC, O. Ont., QC
Director

F. David Radler
Director, Chairman, President and Chief Operating Officer

Richard Rohmer, OC, CMM, DFC, O.Ont., QC
Director

Harry R. Steele, OC
Director

OFFICERS

Frederick A. Creasey
Vice President and Controller

Claire F. Duckworth
Assistant Controller

Sherrie L. Ross
Assistant Treasurer

Tatiana Samila
Treasurer

Sarah Strother
Vice-President

Daily and Non-Daily Paid Newspapers

British Columbia

Alaska Highway News (Fort St. John)
Cranbrook Daily Townsman
Creston Valley Advance
Elk Valley Miner
Fernie Free Press
Grand Forks Gazette
The Kamloops Daily News
Kimberley Daily Bulletin
Nelson Daily News
Peace River Block News (Dawson Creek)
Prince George Citizen
Prince Rupert Daily News
Trail Daily Times

Quebec

The Record (Sherbrooke)

Magazines and Specialty Publications

Magazines
Autovision
Bodyshop
Broadcaster
Cablecaster
Cabling Systems
Canadian Architect
Canadian Consulting Engineer
Canadian Industrial Equipment News
Canadian Mining Journal
Canadian Plastics
Canadian Transportation Logistics
Canadian Underwriter
Centre
Dental Practice Management
Gift and Tablewares
Hazardous Material Management
Jobber News
Laboratory Product News
L'Automobile
Le Bodyshop
Les Papetieres du Quebec
Motor Truck
MRO
New Technology Magazine
Occupational Health & Safety Canada
Oral Health
Petroleum Explorer
Plastiques De Moules
Pulp and Paper Canada
Service Stations and Garage Management
Solid Waste & Recycling
Truck News
Truck West

Directories
American Mines Handbook
Business Environment Directory
Canadian Dental Directory
Canadian Health Facilities Directory
Canadian Medical Directory
Canadian Mines Handbook
Canadian Mining Sourcebook
Canadian Oil Register
Canadian Pharmacists Directory
Canadian Sourcebook
Cdn Underwriter Statistical Issue
Canadian Veterinarian Directory
Directory of Canadian Municipalities
Directory of Canadian Schools
Government Index
Oil & Gas Statistics Quarterly
Ontario Insurance Directory
Pulp & Paper Canada Annual Dir.
Scott's Directories & CD's

Newsletters
Back To Work
Cdn Occupational Health & Safety News
Daily Oil Bulletin
Eco/Log Week
Energy Analects
Environmental Compliance Report
Safety Shop

Other Formats
American MineSCAN, Disk
Canadian MineSCAN, Disk
Eco Log ERIS, Custom Report
Eco/Log Cdn. Environmental Legislation, Loose-leaf/CD ROM
Fund Profiler, CD ROM
Nickle's Energy Group, Web Site
Northern Miner, Newspaper

Corporate Information

Listing of Partnership Units
The units of the Partnership are listed on the Toronto Stock Exchange under the symbol "HCN.UN".

Transfer Agent and Registrar
The transfer agent and registrar for units of the Partnership is Computershare Trust Company of Canada.

Annual Information Form
A copy of the Hollinger Canadian Newspaper, Limited Partnership Annual Information Form is available from the Secretary of Hollinger Canadian Newspapers G.P. Inc. upon request at 10 Toronto Street, Toronto, Ontario, M5C 2B7.

Unitholder Account Information
Unitholders seeking information or assistance concerning their accounts may contact Computershare Trust Company of Canada at (416) 981-9633
or 1-800-663-9097 or e-mail at
caregistryinfo@computershare.com
Computershare's website is
www.computershare.com

Investor Information
Unitholders or other interested parties seeking assistance or information about the Partnership are invited to contact J. David Dodd, Senior Vice President & Chief Financial Officer Hollinger Canadian Newspapers G.P. Inc.
Telephone: (708) 342-7900
Fax: (708) 633-6978
or Paul B. Healy, Vice President, Corporate Development and Investor Relations, Hollinger International Inc.
Telephone: (212) 586-5666
Fax: (212) 586-0010